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United States House of Representatives
Committee on Ways and Means, Subcommittee on Health
Hearing on the 2013 Medicare Trustees Report
Thursday, June 20, 2013

Mr. Chairman and Members of the Subcommittee:

I am Max Richtman, President and Chief Executive Officer of the National Committee to Preserve Social Security and Medicare (NCPSSM), a grassroots advocacy and education organization devoted to preserving and promoting Social Security, Medicare, and Medicaid – programs that are the foundation of financial and health security for older Americans. On behalf of the National Committee's millions of members and supporters across America, I appreciate this opportunity to submit our analysis of the 2013 Medicare Trustees Report.

The 2013 Medicare Trustees Report shows that enactment of the *Affordable Care Act* has improved Medicare's financial situation and extended the solvency of the Part A trust fund by two additional years. Provisions in the health care reform law are reducing spending while improving the quality of care for Medicare beneficiaries. This is being accomplished through new coordinated care models and incentives that reduced the rate of hospital readmissions in 2012. At the same time, millions of Medicare beneficiaries are receiving preventive screenings and wellness visits without copayments and increased help with their prescription drug costs.

The Trustees Report also points out the need to further reform our health care system so that Medicare's long-term costs, which will grow due to the retirement of the baby boom generation and the increase in overall health spending, are affordable for both the federal government and beneficiaries.

In addition, Medicare cost projections do not take into account the likelihood that Congress will act, as it has many times in the past, to prevent a nearly 25 percent reduction in physician fees on January 1, 2014 as required by the sustainable growth rate (SGR) enacted by the Balanced Budget Act of 1997. Moreover, some question whether the reductions in reimbursements to providers mandated by the *Affordable Care Act* will be sustained if the control of their growth causes access problems for beneficiaries.

Background

Each year the Medicare Trustees release a report on the current status and projected condition of the funds over the next 75 years. The Trustees report on both of Medicare's Trust Funds - the Hospital Insurance (HI) Trust Fund and the Supplementary Medical Insurance (SMI) Trust Fund. The HI Trust Fund finances Part A which covers inpatient hospital and related care. The SMI Trust Fund finances Part B physician and outpatient care, as well as Part D which pays for prescription drugs.

Medicare Part A (HI Trust Fund) is primarily financed by payroll taxes on earnings that are paid by employees, employers and the self-employed. Employees and employers each pay 1.45 percent in taxes on all earnings. The self-employed contribute 2.9 percent, the equivalent of the combined employer and employee tax rates**.**

Medicare Parts B and D (SMI Trust Fund) are financed by payments from federal general fund revenues (about 75 percent) and by monthly premiums charged to beneficiaries (about 25 percent). Because Medicare Part B and Part D are automatically financed through general revenues and beneficiary premiums to meet estimated program costs each year, the SMI Trust Fund is adequately financed in both the short and long term.

Financial Outlook of the Medicare Program

The Medicare Part A (HI) Trust Fund will be solvent until 2026, which is two years longer than was projected last year. In 2026, payroll taxes alone are estimated to be sufficient to cover 87 percent of HI costs.

Solvency has improved by nine years from the date that was projected before enactment of the *Affordable Care Act*. This legislation improved Medicare's financing by reducing the rate of increase in provider payments, phasing out overpayments to Medicare Advantage plans, and increasing Medicare payroll taxes for high-income individuals and couples.

Medicare's actuarial shortfall decreased from last year. The HI Trust Fund now has a projected 75-year actuarial deficit equal to 1.11 percent of payroll compared with last year's estimate of 1.35 percent. This is much less than the 3.88 percent of payroll that the trustees estimated before the *Affordable Care Act* became law. In other words, the HI Trust Fund's fiscal imbalance could be solved by increasing payroll taxes by 1.11 percent, by reducing the program's spending by a corresponding amount, or by some combination of the two.

Medicare spending decreased slightly as a share of the economy. The Trustees project that Medicare's costs (for both the HI and SMI Trust Funds), which were 3.6 percent of gross domestic product (GDP) in 2012, down from 3.7 percent in 2011, will grow substantially to 5.6 percent of GDP in 2035, down from last year’s estimate of 5.7 percent. This increase is because the number of people receiving benefits will grow as the baby boom generation retires. Thereafter, Medicare's costs are projected to grow more slowly, to 6.7 percent of GDP in 2087. Again, these increases are lower than what was projected before enactment of health care reform when Medicare's costs were projected to grow from 3.5 percent of GDP in 2009 to 11.3 percent of GDP in 2083.

Costs for Part B (SMI Trust Fund) are growing due to the aging population and rising health care costs. Part B spending, which was 2.0 percent of GDP in 2011, is projected to increase to 3.4 percent within 25 years and to 4.0 percent in 2087. Although costs are projected to rise, the increases are lower than those projected before enactment of the *Affordable Care Act* – i.e. that costs would rise to 4.5 percent of GDP in 75 years.

Medicare Part B Premium and Deductible

The standard Part B monthly premium for 2014 is projected to remain the same as the current $104.90 premium because of a slowdown in the growth of Medicare spending due to reforms in the *Affordable Care Act*. Part B enrollees with incomes exceeding $85,000 for an individual and $170,000 for a couple must pay higher income-related monthly premiums, which are estimated to range from $146.90 to $335.70 in 2014 (the same as the 2013 amounts). The annual deductible is projected to remain at $147.00.

Medicare Part D

Medicare Part D spending estimates are lower than projected last year. The projections are a result of lower-than-anticipated drug spending in 2012 due to patent expirations for some high costs drugs and greater use of lower-cost generic drugs.

Part D expenditures as a percent of GDP are expected to increase from 0.45 percent in 2012 to 0.92 percent in 2035 and to 1.42 percent in 2085. The average Part D monthly premium is $31.17 in 2013, and is estimated to be $33.93 in 2014. In 2013, Part D enrollees with incomes exceeding the threshold of $85,000 for an individual and $170,000 for a couple are paying an income-related monthly adjustment amount in addition to their normal plan premium, ranging from $11.60 to $66.60 per month. The Part D annual deductible, which is $325 in 2013, will decrease to $310 in 2014.

NATIONAL COMMITTEE POSITION

Medicare spending per beneficiary is projected to continue growing more slowly than private sector spending. However, Medicare faces a long-term financial challenge due to the large increase in the number of beneficiaries, as baby boomers reach age 65, and overall health care inflation.

It is critical that we successfully implement reforms in the *Affordable Care Act* that are containing costs and promoting access to quality health care. This includes supporting coordinated care through Accountable Care Organizations, bundled payments, and reducing hospital readmissions and hospital-acquired infections, as well as efforts to further reduce spending due to waste, fraud and abuse. These provisions, along with requirements in the law to slow the rate of increase in provider payments and reduce overpayments to Medicare Advantage plans, are necessary to prevent Medicare costs from becoming unsustainable for both beneficiaries and the federal government.

The National Committee supports strengthening Medicare's financing without shifting costs to beneficiaries by requiring Part D drug rebates for dual eligible Medicare beneficiaries and allowing the federal government to negotiate prescription drug prices. The Congressional Budget Office (CBO) has estimated savings of $141 billion over 10 years if drug manufacturers were required to provide rebates for drugs used by low-income Medicare beneficiaries, as they were required to do before passage of the Medicare Modernization Act.